

**SOUTH CENTRAL MICHIGAN
CONSTRUCTION CODE INSPECTION, INC
FINANCIAL STATEMENTS**
For the year ended September 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
South Central Michigan Construction Code Inspection, Inc

We have audited the accompanying financial statements of the business-type activities of South Central Michigan Construction Code Inspection, Inc, Michigan, as of and for the year ended September 30, 2010, which collectively comprise the South Central Michigan Construction Code Inspection, Inc's basic financial statements as listed in the table of contents. These financial statements are the responsibility of South Central Michigan Construction Code Inspection, Inc, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of South Central Michigan Construction Code Inspection, Inc, Michigan, as of September 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Central Michigan Construction Code Inspection, Inc's financial statements as a whole. The additional supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of South Central Michigan Construction Code Inspection, Inc, Michigan. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hastings, Michigan
October 24, 2011

Walker, Fluke & Sheldon, P.C.

South Central Michigan Construction Code Inspection, Inc. Management Discussion and Analysis

As the Board of the South Central Michigan Construction Code Inspection, Inc., we offer readers of the Code Inspection's financial statements this narrative overview and analysis of the financial activities of South Central Michigan Construction Code Inspection, Inc., for the year ended September 30, 2010. The analysis focuses on significant financial position and specific issues related to funds and the economic factors affecting the Code Inspection. We encourage readers to consider this information in conjunction with the letter of transmittal, which begins on page 1, and the financial statements, which begin on page 5.

Financial Highlights

- The assets of South Central Michigan Construction Code Inspection, Inc., exceeded its liabilities at the close of the year ended September 30, 2010 by \$149,225 (net assets), compared to \$303,604 for the year ended September 30, 2009. Of this amount, \$116,689 (unrestricted net assets) may be used to meet the ongoing obligations to the members.
- The government's total net assets decreased by \$154,379 for the year ended September 30, 2010, compared to an increase of \$57,509 for the year ended September 30, 2009.

Overview of the Financial Statements

The South Central Michigan Construction Code Inspection, Inc.'s, basic financial statements comprise two components: 1) fund financial statements, and 2) notes to financial statements. This report also contains other supplementary information, in addition to the basic financial statements themselves.

Basic financial statements. The basic financial statements are designed to provide readers with a broad overview of the Code Inspection's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Code Inspection's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Code Inspection's financial position is improving or deteriorating.

The statement of revenues, expenses and changes in net assets presents information showing how the Code Inspection's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the basic financial statements distinguish functions of the South Central Michigan Construction Code Inspection, Inc., that are principally supported through user fees and charges (business-type activity).

The basic financial statements can be found on pages 5-7 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. South Central Michigan Construction Code Inspection, Inc., uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the South Central Michigan Construction Code Inspection, Inc., can be divided into one category: proprietary funds.

Proprietary funds. The South Central Michigan Construction Code Inspection, Inc., maintains a single proprietary fund. Enterprise funds are used to report the same functions as business-type activities in the basic financial statements. The South Central Michigan Construction Code Inspection, Inc., uses an enterprise fund.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The notes to financial statements can be found on pages 8-12 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents supplementary information.

Supplementary information is presented immediately following the notes to financial statements on page 13.

Basic Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of South Central Michigan Construction Code Inspection, Inc., assets exceeded liabilities by \$149,225 for the year ended September 30, 2010.

The most significant portion, \$116,689, of the Code Inspection's net assets (78.2 percent) reflects its unrestricted net assets, which may be used to meet ongoing obligations to the members. The Code Inspection does not have any restricted net assets, which are resources that are subject to external restrictions on how they may be used. The remaining portion of the Code Inspection's net assets (21.8 percent) reflects its investment in capital assets (\$32,536) (e.g. land, buildings, equipment and furniture and fixtures). The South Central Michigan Construction Code Inspection, Inc., uses these capital assets to provide services to members; consequently, these assets are not available for future spending.

South Central Michigan Construction Code Inspection, Inc.'s Condensed Financial Data

	Year Ended 9/30/2010	Year Ended 9/30/2009
Current and Other Assets	\$ 130,658	\$ 294,564
Capital Assets	32,536	32,087
Total Assets	163,194	326,651
Short-Term Liabilities	13,969	23,047
Long-Term Liabilities	-	-
Total Liabilities	13,969	23,047
Net Assets		
Invested in Capital Assets, Net of Related Debt	32,536	32,087
Restricted	-	-
Unrestricted	116,689	271,517
Total Net Assets	\$ 149,225	\$ 303,604
Business-Type Revenues		
Charges for Services	\$ 516,641	\$ 918,954
Other	7,048	9,395
Total Revenues	523,689	928,349
Business-Type Expenses		
Enterprise	666,908	870,840
Total Expenses	666,908	870,840
Nonoperating Revenues (Expenses)	(11,160)	-
Change in Net Assets	\$ (154,379)	\$ 57,509

At the end of the current fiscal year, the South Central Michigan Construction Code Inspection, Inc., is able to report positive balances in all categories of net assets.

Business-Type activities. Business-type activities decreased the Code Inspection's net assets by \$154,379, mainly due to the fact that inspections and permits are down for both offices, and the Company has sustained a substantial loss of members.

Capital Assets

The Code Inspection's investment in capital assets for its governmental activities as of September 30, 2010, amounts to \$32,536 (net of accumulated depreciation). This investment in capital assets includes: land, construction in progress, improvements, equipment and furniture and fixtures.

Details of the Code Inspection's capital assets are continued in the notes to financial statements on page 11.

Economic Factors and Next Year's Budgets and Rates

The South Central Michigan Construction Code Inspection, Inc., feels the economic status of Michigan in the arena of housing and high unemployment has a direct affect on building activity. In addition, the South Central Michigan Construction Code Inspection, Inc., has taken measures to decrease costs and yearly examines fees related to income. Also, the Code Inspection continues to have ongoing plans for soliciting new members to increase volume.

Requests for Information

This financial report is designed to provide a general overview of South Central Michigan Construction Code Inspection, Inc.'s, finances for all those with an interest in the Code Inspection's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrative Manager, South Central Michigan Construction Code Inspection, Inc., 113 S Capital St, PO Box 509, Athens, MI 49011. 1-888-249-7077

SOUTH CENTRAL MICHIGAN CONSTRUCTION CODE INSPECTION, INC.
STATEMENT OF NET ASSETS
September 30, 2010

<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 106,716
Receivables	14,957
Prepaid Expenses	8,985
Capital Assets (Net of Accumulated Depreciation)	<u>32,536</u>
 Total Assets	 <u>\$ 163,194</u>
 <u>LIABILITIES AND NET ASSETS</u>	
Liabilities	
Accounts Payable	\$ 4,996
Accrued Liabilities	<u>8,973</u>
 Total Liabilities	 <u>13,969</u>
 Net Assets	
Investment in Capital Assets, Net of Related Debt	32,536
Restricted	-
Unrestricted	<u>116,689</u>
 Total Net Assets	 <u>149,225</u>
 Total Liabilities and Net Assets	 <u>\$ 163,194</u>

The Notes to Financial Statements are an integral part of this statement.

SOUTH CENTRAL MICHIGAN CONSTRUCTION CODE INSPECTION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
For the Year Ended September 30, 2010

Operating Revenues	
Charges for Services	\$ 516,641
Other Operating Revenue	<u>7,048</u>
Total Operating Revenues	<u>523,689</u>
Operating Expenses	
Salaries and Fringes	507,911
Office Supplies	15,754
Bank Service Charges	656
Postage and Delivery	7,178
Insurance	18,179
Printing and Publishing	5,679
Memberships, Training and Dues	15,643
Repairs and Maintenance	9,063
Equipment Rental	6,450
Professional Fees	19,002
Travel	1,189
Rent	33,396
Miscellaneous	140
Telephone	18,163
Utilities	5,476
Taxes	393
Interest	9
Depreciation	<u>2,627</u>
Total Operating Expenses	<u>666,908</u>
Operating Income (Loss)	<u>(143,219)</u>
Nonoperating Revenues (Expenses)	
Impairment Loss on Fire Damage	<u>(11,160)</u>
Total Nonoperating Revenues (Expenses)	<u>(11,160)</u>
Change in Net Assets	(154,379)
Net Assets-October 1, 2009	<u>303,604</u>
Net Assets-September 30, 2010	<u>\$ 149,225</u>

The Notes to Financial Statements are an integral part of this statement.

SOUTH CENTRAL MICHIGAN CONSTRUCTION CODE INSPECTION, INC.
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2010

Cash Flows From Operating Activities:	
Cash Charges for Services	\$ 520,834
Other Operating Revenue	7,048
Cash Payments to Employees for Services	(515,454)
Cash Payments to Suppliers for Goods and Services	<u>(157,905)</u>
Net Cash Provided by (Used by) Operating Activities	<u>(145,477)</u>
Cash Flows From Capital and Related Financing Activities:	
Acquisition of Capital Assets	<u>(14,236)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(14,236)</u>
Cash Flows From Investing Activities:	
Interest on Cash Equivalents and Investments	<u>-</u>
Net Cash Provided by Investing Activities	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(159,713)
Cash and Cash Equivalents at Beginning of the Year	<u>266,429</u>
Cash and Cash Equivalents at End of the Year	<u>\$ 106,716</u>
Reconciliation of Operating Income to Net Cash	
Used by Operating Activities:	
Operating Income (Loss)	\$ (143,219)
Depreciation	2,627
Adjustments to Reconcile Operating Income to Net	
Cash Provided by Operating Activities:	
Decrease (Increase) in Accounts Receivable	4,193
Decrease (Increase) in Prepaid Expenses	-
Increase (Decrease) in Accounts Payable	(1,535)
Increase (Decrease) in Accrued Liabilities	<u>(7,543)</u>
Net Cash Provided by (Used by) Operating Activities	<u>\$ (145,477)</u>

The Notes to Financial Statements are an integral part of this statement.

SOUTH CENTRAL MICHIGAN CONSTRUCTION CODE INSPECTION, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of South Central Michigan Construction Code Inspection, Inc conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by South Central Michigan Construction Code Inspection, Inc.

REPORTING ENTITY

South Central Michigan Construction Code Inspection, Incorporated, a governmental joint-venture, was organized in 1997 to administer and enforce certain construction codes and ordinances adopted by each of the member municipalities, provide contractual inspection services and grant administration services to governmental units, private individuals or enterprises, hire competent inspectors, establish appropriate policies and rules for a code enforcement program, arrange for convenient locations where records, permits, and inspections may be obtained, and establish a uniform schedule of fees for permits and inspections. The organization consists of member municipalities, in which each participating municipality selects an elected representative to serve on the Board of South Central Michigan Construction Code Inspection, Incorporated. The members do not have an ownership interest in the Organization, and are not entitled to any share of net assets as a result of termination of membership. As of September 30, 2010, the member municipalities are: Bellevue Township, Brady Township, Burr Oak Township, Burr Oak Village, Convis Township, Homer Township, Leonidas Township, Lockport Township, NHPB-Indian Housing Authority, Park Township, Sherman Township, and Tuscola County.

On September 30, 2002, South Central Michigan Construction Code Inspection, Incorporated entered into a one year agreement with the County of Tuscola pursuant to Michigan's Intergovernmental Contracts between Municipal Corporations Act. This agreement designates South Central Michigan Construction Code Inspection, Incorporated as its agent with the right to fully exercise the Administrative Power under its current Construction Code. This Administrative Power extends to all inspections and administrative enforcement with the exception of those duties and costs designated to be handled and funded by the Tuscola County Prosecuting Attorney. Although the original one year agreement has expired, the parties continue to progress toward the County becoming a full member of the South Central Michigan Construction Code Inspection, Inc.

On June 20, 2005, South Central Michigan Construction Code Inspection, Incorporated entered into a one year agreement with the City of Bay City to provide inspection services to the City as an independent contractor on an "as needed" basis. On August 24, 2008 the contract was extended under the same terms until June 30, 2011.

BASIC FINANCIAL STATEMENTS

The basic financial statements (i.e., the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows) report information on all of the nonfiduciary activities of the government. The South Central Michigan Construction Code Inspection, Inc only has one business-type activity, which relies to a significant extent on fees and charges.

South Central Michigan Construction Code Inspection, Inc. is considered a major individual Enterprise Fund.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The basic financial statements are reported using the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All other revenue items are considered to be available only when cash is received by the government.

SOUTH CENTRAL MICHIGAN CONSTRUCTION CODE INSPECTION, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION
(Continued)

Enterprise Funds account for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The South Central Michigan Construction Code Inspection, Inc. reports the following major proprietary fund:

- The Enterprise Fund accounts for operations for the inspection services.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The South Central Michigan Construction Code Inspection, Inc. has elected not to follow private-sector standards.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering products in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Bank Deposits - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Capital Assets - Capital assets, which include property, plant, and equipment, are reported in the basic financial statements. The government defines capital assets as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Furniture	10 years
Equipment	5-10 years
Leasehold Improvements	40 years

ENCUMBRANCE ACCOUNTING

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by South Central Michigan Construction Code Inspection, Inc.

SOUTH CENTRAL MICHIGAN CONSTRUCTION CODE INSPECTION, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2010

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91, authorizes the South Central Michigan Construction Code Inspection, Inc to make deposits and invest in the accounts of federally insured banks, credit unions and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The South Central Michigan Construction Code Inspection, Inc has designated two banks for the deposit of South Central Michigan Construction Code Inspection, Inc funds.

The South Central Michigan Construction Code Inspection, Inc's deposits are in accordance with statutory authority.

At year-end, the South Central Michigan Construction Code Inspection, Inc's deposits were reported in the basic financial statements in the following categories:

	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL PRIMARY GOVERNMENT</u>
Cash and Cash Equivalents	\$ 106,356	\$ 106,356
Investments	-	-
Restricted Assets	-	-
Total	<u>\$ 106,356</u>	<u>\$ 106,356</u>

The breakdown between deposits and investments is:

	<u>TOTAL PRIMARY GOVERNMENT</u>
Cash and Cash Equivalents (Checking and Savings Accounts, Certificates of Deposit)	\$ 106,356
Investment in Securities (Mutual Funds and Similar Vehicles)	-
Petty Cash and Cash on Hand	<u>360</u>
Total	<u>\$ 106,716</u>

SOUTH CENTRAL MICHIGAN CONSTRUCTION CODE INSPECTION, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2010

DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk is the risk that South Central Michigan Construction Code Inspection will not be able to recover its deposits in the event of financial institution failure. The South Central Michigan Construction Code Inspection's deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. At September 30, 2010, the Code Inspection had deposits with a carrying amount of \$106,356 and a bank balance of \$123,877. Of the bank balance, \$123,877 is covered by federal depository insurance, \$0 is uninsured and \$0 is collateralized.

The South Central Michigan Construction Code Inspection, Inc investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
Business-Type Activities				
Capital Assets not Being Depreciated				
Land	\$ 15,201	\$ -	\$ -	\$ 15,201
Construction in Progress	-	8,323	-	8,323
Subtotal	15,201	8,323	-	23,524
Capital Assets Being Depreciated				
Furniture	749	-	125	624
Equipment	23,826	5,912	15,650	14,088
Leasehold Improvements	10,360	-	10,360	-
Subtotal	34,935	5,912	26,135	14,712
Less Accumulated Depreciation for				
Furniture	604	49	126	527
Equipment	17,100	2,341	14,268	5,173
Leasehold Improvements	345	237	582	-
Subtotal	18,049	2,627	14,976	5,700
Net Capital Assets Being Depreciated	16,886	3,285	11,159	9,012
Business-Type Activities Total				
Capital Assets-Net of Depreciation	\$ 32,087	\$ 11,608	\$ 11,159	\$ 32,536

Depreciation expense was charged to programs of the South Central Michigan Construction Code Inspection, Inc as follows:

Business-Type Activities	
Enterprise	\$ 2,627
Total Business-Type Activities	\$ 2,627

SOUTH CENTRAL MICHIGAN CONSTRUCTION CODE INSPECTION, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2010

IMPAIRMENT LOSS ON FIRE DAMAGE

The organization experienced a fire to the Athens office in August 2010. Construction of the new office space was not complete at September 30, 2010 and has been recorded as Construction in Progress. An insurance claim to cover the loss was filed and payment was received in the next fiscal year.

CONTINGENT LIABILITY

The organization collects non-refundable payments at the time of application for inspections that will be performed at a later date. As of September 30, 2010 the organization approximates this contingent liability to be approximately \$46,759 for unprocessed inspection costs.

LEASE COMMITMENTS

The organization has entered into two operating leases for office space. The Athens office entered into a new lease agreement with the Athens Masonic Lodge #220 during the fiscal year September 30, 2009. The lease is non-cancellable and expires on February 6, 2011. For the reporting period, rent expense for the Athens office is \$8,400. The Tuscola County office lease is one year in length and expires each October 1st. For the reporting period, rent expense for the Tuscola office is \$24,996.

RISK MANAGEMENT

The Organization is exposed to various risks of loss related to property loss, torts, errors and omissions. The Organization's Insurance for general liability, excess liability, auto liability, trunk-line liability, errors and omissions, and physical damage (equipment, buildings and contents) is provided through a commercial insurance company. Settled claims have not exceeded the amount of insurance coverage in any of the past three years.

SOUTH CENTRAL MICHIGAN CONSTRUCTION CODE INSPECTION, INC.
STATEMENTS OF REVENUES AND EXPENSES BY LOCATION
For the Year Ended September 30, 2010

	<u>Athens</u>	<u>Tuscola</u>	<u>Total</u>
Operating Revenues			
Charges for Services	\$ 276,871	\$ 239,770	\$ 516,641
Other Operating Revenue	<u>2,770</u>	<u>4,278</u>	<u>7,048</u>
Total Operating Revenues	<u>279,641</u>	<u>244,048</u>	<u>523,689</u>
Operating Expenses			
Salaries and Fringes	261,538	246,373	507,911
Office Supplies	9,108	6,646	15,754
Bank Service Charges	646	10	656
Postage and Delivery	4,035	3,143	7,178
Insurance	9,090	9,089	18,179
Printing and Publishing	3,931	1,748	5,679
Memberships, Training and Dues	9,048	6,595	15,643
Repairs and Maintenance	8,499	564	9,063
Equipment Rental	6,450	-	6,450
Professional Fees	13,815	5,187	19,002
Travel	1,189	-	1,189
Rent	8,400	24,996	33,396
Miscellaneous	140	-	140
Telephone	10,802	7,361	18,163
Utilities	5,411	65	5,476
Taxes	393	-	393
Interest	9	-	9
Depreciation	<u>1,574</u>	<u>1,053</u>	<u>2,627</u>
Total Operating Expenses	<u>354,078</u>	<u>312,830</u>	<u>666,908</u>
Operating Income (Loss)	<u>(74,437)</u>	<u>(68,782)</u>	<u>(143,219)</u>
Nonoperating Revenues (Expenses)			
Impairment Loss on Fire Damage	<u>(11,160)</u>	<u>-</u>	<u>(11,160)</u>
Total Nonoperating Revenues (Expenses)	<u>(11,160)</u>	<u>-</u>	<u>(11,160)</u>
Change in Net Assets	<u>\$ (85,597)</u>	<u>\$ (68,782)</u>	<u>\$ (154,379)</u>



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To the Board of Directors
South Central Michigan Construction Code Inspection, Inc.
Calhoun County, Michigan

We have recently completed our audit of the basic financial statements of South Central Michigan Construction Code Inspection, Inc. for the year ended September 30, 2010. As an addition to the audit report, the following report on internal control and results of the audit are being provided to South Central Michigan Construction Code Inspection, Inc.

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We are very thankful for the opportunity to be of service to South Central Michigan Construction Code Inspection, Inc. Should you have any questions regarding these reports, please do not hesitate to contact us.

Hastings, Michigan
October 24, 2011

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South Central Michigan Construction Code Inspection, Inc.
Calhoun County, Michigan

In planning and performing our audit of the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of South Central Michigan Construction Code Inspection, Inc. as of and for the year ended September 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered South Central Michigan Construction Code Inspection, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Code Inspection's internal control. Accordingly, we do not express an opinion on the effectiveness of the Code Inspection's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in Code Inspection's internal control to be material weaknesses:

- One employee writes checks, signs checks with signature stamps, records deposits, performs bank reconciliations and creates financial reports. This is a repeat comment.
- The permit computer system reports cannot be reconciled to the general ledger computer system, resulting in possible material differences in revenue. The Code Inspection should evaluate the Permit Fees Reports and Permit Extra Fees Reports produced from the system to determine the discrepancies between the totals on those reports to the Fund Summary Reports produced from the same system.
- The Code Inspection does not have the technical expertise to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record revenue and expenditure accruals, changes in capital assets, and to present required financial statement disclosures. This is a recurring comment. Currently, the Code Inspection contracts with Walker, Fluke & Sheldon, PLC to prepare the financial statements and assist with accrual entries, because the additional benefits derived from implementing a system, would not outweigh the costs incurred.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

This communication is intended solely for the information and use of management, the board of trustees of Code Inspection and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Hastings, MI
October 24, 2011

Walker, Fluke & Sheldon, PLC



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October 24, 2011

To the Board of Directors
South Central Michigan Construction Code Inspection, Inc.
Calhoun County, Michigan

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of South Central Michigan Construction Code Inspection, Inc. for the year ended September 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 4, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by South Central Michigan Construction Code Inspection, Inc. are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2010. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is depreciation.

South Central Michigan Construction Code Inspection, Inc.'s estimate of depreciation is based on estimated useful lives of capital assets. We reviewed these estimates used to calculate depreciation and believe they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has recorded all proposed adjustments. The following material misstatements detected as a result of our audit procedures were corrected by management:

Adjustment to accumulated depreciation and capital assets due to impairment loss from fire

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 8, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as South Central Michigan Construction Code Inspection, Inc.'s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. During the course of our audit, a certain item came to our attention which requires further comment.

PA 2 of 1968 requires all local unites of government to have an annual audit except that, in the instance of units of less than 4,000 population, the minimum requirement will be an annual audit not less frequently than every two years. The audit reports are to be filed with the state treasurer within 6 months after the end of the fiscal year of the local unit. Records for the current auditing period were not available until after the filing due date with the state treasurer. Although this may have resulted partly from the fire at the Athens office, it is our recommendation that the Board take immediate action to have the audit for the September 30, 2010 fiscal year end completed and filed timely.

This information is intended solely for the use of the South Central Michigan Construction Code Inspection, Inc. Board and management of South Central Michigan Construction Code Inspection, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Walker, Fiske & Shields, PLLC